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Helmerich & Payne earnings drop

By: D. Ray Tuttle The Journal Record July 31, 2014 0

TULSA – Contract drilling company [Helmerich & Payne Inc.](#) on Thursday reported that net income for the third fiscal quarter ended June 30 fell 28 percent compared with last year, but the company beat analysts' estimates on earnings per share and revenues.

Tulsa-based H&P reported net income for the quarter of \$192.3 million, or \$1.75 per diluted share, down from \$266.2 million, or \$2.46 per diluted share, from the third quarter of the previous fiscal year.

Thomson Reuters expected earnings of \$1.63 per share for the quarter. Analysts' estimates typically exclude special items. The latest results included a gain of 13 cents per share on the sale of investment securities and 1 cent per share from gains from the sale of used drilling equipment.

Operating revenue also topped analysts' forecasts. Revenue for the quarter climbed 13 percent to \$952.1 million from \$840.2 million a year earlier. Analysts expected revenue of \$944.1 million.

Qian Zhang, a market analyst with Tulsa's [Fredric E. Russell Investment Management Co.](#), said the company made progress on new multi-year term contracts.

"H&P is in a great position and benefits from tremendous activity in oil and gas exploration in the United States," Zhang said. "The company also has a great reputation with their FlexRigs. The company's competitive advantage is to complete wells at a lower total cost than the competition."

Net income for the first nine months of the fiscal year declined 6 percent to \$540 million from \$576.8 million for the first nine months of the previous fiscal year. Earnings per share fell 7 percent to \$4.92, compared with \$5.33 a year earlier.

Despite the decline, H&P reported significant milestones, said President and CEO John Lindsay.

"We achieved record revenue, operating income and rig activity after activating 11 new FlexRigs during the quarter," Lindsay said during a conference call with analysts and investors. "The year continues to be a strong one as the shale revolution marches on."

There was a stark contrast in the market today compared to a year ago, Lindsay said.

"Although oil was near \$100 a barrel, as it is today, we did not announce any new build contracts, while some of our competitors did," Lindsay said.

The issue a year ago was that the market supported low day rates and short-term contracts on new builds, providing poor rates of return.

"We decided to be patient rather than sign contracts for new builds at low rates," Lindsay said. "Our belief was that the market would improve and allow the rigs to be contracted at more attractive rates."

H&P's U.S. land rig count is at 292 rigs, up 49 rigs from a year ago, Lindsay said.

"Of the 74 new builds announced this fiscal year, we have delivered 36 FlexRigs," Lindsay said. The 74 new builds are a record for a 12-month period.

Lindsay declined to speculate about when the market might reach the saturation point for new rigs, noting that there are more than 1,000 legacy mechanical rigs operating in the United States and even more outside the U.S.

"We believe there are many years of the replacement cycle ahead prior to reaching saturation in the industry," Lindsay said. "We continue to see a strong U.S. land drilling market and expect to benefit from increasing activity, recovering spot pricing levels, and additional customer commitments."

Operating income for the company's U.S. land operations rose 15 percent to \$271.1 million for the quarter, compared with \$236.4 million a year earlier, and increased 11 percent from \$245.1 million reported in the second quarter, said Juan Pablo Tardio, chief financial officer. For the first nine months, H&P reported a 10-percent increase

in operating income for the U.S. land operations, to \$767.1 million, compared to \$696.7 million last year.

Segment operating income grew as a result of the \$89-per-day increase in the average rig revenue. The price per day rose to \$28,126, while the average rig expense per day fell \$45 to \$13,035 during the quarter, Tardio said.

As a result, the average rig margin per day increased \$134 to \$15,091 during the quarter, Tardio said. Rig utilization rose to 88 percent from 83 percent for the third quarter of the previous fiscal year and 86 percent for the second quarter. On June 30, the company's land segment had 289 contracted rigs, including 170 under term contracts.

H&P shares fell \$8.24 per share, or 7.2 percent, to \$106.26 on the New York Stock Exchange.

Zhang said the company increased its dividend to 68 cents from 62 cents per share.

"It indicates a strong cash flow and commitment to shareholders," Zhang said.

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